GOVERNMENT OF INDIA
POWER
LOK SABHA

STARRED QUESTION NO:167
ANSWERED ON:14.03.2002
FDI IN POWER SECTOR
A. KRISHNASWAMY;T.M. SELVAGANAPATHI

Will the Minister of POWER be pleased to state:

(a) whether the Union Government are introducing an Incentive basedsystem to attract Foreign Direct Investments in the power sector;

(b) if so, the details thereof; and

(c) the steps taken by the Government in this regard?

Answer

THE MINISTER OF POWER (SHRI SURESH P. PRABHU)

(a) to (c) : A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (c) OF STARRED QUESTION NO. 167 TO BE ANSWERED IN TH LOK SABHA ON 14.03.2002 REGARDING FDI IN POWER SECTOR.

(a) to (c) : The policy to attract and encourage greater investment in the power sector through private sector participation, including foreign Direct investment, was announced in 1991 in the background of inability of Government alone to mobilize adequate financial resources given the highly capital intensive nature of the sector and the large incremental capacity addition requirements. The two part tariff notification issued by Government of India (GOI) on 30.3.1992 in exerciseof powers conferred by sub-section (2) of Section 43A of the Electricity (Supply) Act, 1948 allows a return of upto 16% on equity (paid up and subscribed) at normative levels of operation i.e. 68.5% Plant Load Factor (PLF) to generatingcompanies in the private sector for power projects set up by them. For generation beyond this level, incentive at negotiated rates subject to a ceiling of 0.7% of equity (paid up and subscribed), for each percentage increase in PLF is allowed.100% foreign equity participation is permitted in generation, transmission and distribution on automatic approval basis, without any upper limit. The CentralElectricity Regulatory Commission at the Centre as well as State Electricity Regulatory Commissions in nineteen States have been set up.The RegulatoryCommissions will look into all aspects of tariff fixation and provide a level playing field for investors.

In regard to transmission sector, in order to provide comfort to investors, the Power Grid Corporation of India Ltd., proposes to obtain all the initial clearances such as right-of-way, forest clearances etc. for the projects to be offered initially to the private sector. Government has already made the enabling legal amendments for facilitating private investment in transmission. The regulatory framework is also in position to provide a level playing field to all participants. The Central Electricity Regulatory Commission (CERC) has issued draft guidelines for competitive bidding as well as the terms and conditions for issue of licenses to private investors.

Power distribution is proposed to be privatized on the basis for an area approach where under licenses would be issued for different areas. GOI hasinitiated distribution reforms and has signed Memoranda of Understanding with 20 States, under which states have committed for reduction of Transmission & Distribution losses, 100% metering, energy auditing etc. In turn, GOI haveoffered to assist the States under the Accelerated Power Development Programme(APDP). In the first phase, 63 distribution circles in various States have been taken up for intensive upgradation of sub-transmission and distribution systems. Remaining distribution circles in the country would also be taken up for coverage in a phased manner. The programme to reduce Transmission & Distributionlosses and improvement in distribution system would provide considerable opportunities for investment as the process of reform and restructuring of State Electricity Boards gains momentum.